

Memo

To: Mayor Sandra Decker and Members of Evansville Common Council
From: Jennifer Petruzzello and Eric Jepperson, Finance Director
Date: March 11, 2007
Re: Proposed 2007 City Budget

Summary of Proposed 2007 City Budget

The attached proposed budget has been prepared with the primary goal of continuing to provide basic services to a growing community, while maintaining a stable tax rate. In addition, the budget will be prepared to meet the guidelines of the State of Wisconsin Expenditure Restraint Program and to ensure that the City's levy complies with the State's property tax levy limit.

The State of Wisconsin Expenditure Restraint Program is a program where municipalities receive revenue from the state for voluntarily controlling the level of their general fund operating expenses. Each year, operating expenses can increase by no more than the cost of living and a portion of the growth in net new construction (60% of the growth in net new construction, capped at 2%). Evansville is continuing to grow at a rapid rate, and the 2007 limit will be equal to the cost of living plus the maximum 2% allowed for new growth. The City's Expenditure Restraint limit to qualify for a 2008 payment is 5.7%. **The proposed budget currently includes a general fund operating expense increase of 4.55%.**

For the 2007 Budget, the City tax levy will again be held to a Property Tax Levy Limit by the State of Wisconsin. This limit is equal to the ratio of the increase in equalized value from January 1, 2005 to January 1, 2006, from new construction divided by the total equalized value as of January 1, 2005. The 2007 Property Tax Levy limit will be 6.11%. Therefore, the City may levy no more than \$1,953,018 for the purposes of general operations, EMS, Library, Cemetery, Debt Service and Capital projects. **The proposed budget includes a levy increase of \$93,075, or 5.06%.**

The levy included in the proposed budget would result in a modest **property tax rate decrease of 0.31%**. Under this scenario, the City tax on an average residential value would increase \$9.58 from \$993.46 to \$1003.04 because of an increase in the average residential assessed value.

The proposed budget has been revised based upon Common Council feedback during the October 5, 2006 Special Council meeting. Additional funding was included for the Senior Citizen's transportation program and the Senior Citizen's Program. Funding was reduced for the fire district per the Fire District's proposed budget. The hire date for the newly proposed General Laborer position in the Public Works Department was delayed until May 1, 2006.

Latest Adjustments

Assessed Value - The total assessed value used to determine the property tax rate was estimated at \$292,445,200. The total assessed valuation of all property, including locally assessed property and state assessed industrial property, is \$292,163,500. The City's current

assessment ratio is 0.987257273. Because the actual assessed valuation came in lower than estimated, the reduction in the tax rate was reduced from 0.41% to 0.31%.

Intergovernmental Revenue (State ERP) – The City received notice that our Expenditure Restraint Payment for 2007 will be reduced from \$68,547 to \$58,701. This \$9,846 reduction is equivalent to a 14% reduction in the ERP. The reduction is a result of more municipalities being eligible for the payment.

Tax Levy (General Fund and Capital) – In order to maintain the Council's goal of a reduced tax rate, the levy in the Capital fund was reduced and the General Fund was increased to offset the reduction in the State Expenditure Restraint payment.

TIF #6 - The Common Council approved the project plan for TIF #6 at its September 26th meeting, and the Joint Review Board approved the project plan on October 16th. The 2007 proposed budget utilizes the preliminary estimates that were included in this plan. These costs are subject to change based upon implementation schedules, future assessment policies and user fee adjustments. The total estimated project cost and debt issuance expenses total \$2,223,435. In addition, the plan estimates that \$411,544 in special assessments for sewer, water, streets and electric will be collected up front and \$36,890 in interest will be earned. The TIF #6 budget will not impact the proposed levy or tax rate.

Notable Budget and Staffing Changes

As you are reviewing the proposed budget, please note that the following budget and staffing changes have been included:

Revenues – Property tax revenue supporting the general fund is increasing by 13%. The property tax is assuming a greater proportion of the operating revenue because the City's intergovernmental revenue (i.e. transportation aid, shared revenue, expenditure restraint payment) is remaining constant or declining. Increases are also included in refuse and recycling special charge revenue to reflect the City's contract with Onyx Disposal. These charges are collected as a special charge on the property tax bill. Interest on temporary investments has been increased to reflect the increase in interest rates.

Legal Services – Legal services have been increased to \$60,000 (from \$40,000) to reflect actual experience based upon the actual amount expended in 2005 and the anticipated expenditure for 2006.

Clerk/Treasurer - The Clerk Treasurer and the Finance and Labor Relations Committee have recommended the inclusion of one additional full time employee. This Customer Service Clerk is needed at this time to address additional workload and address new state requirements related to elections. The total cost of this position, including salary and benefits is \$30,594.

Public Fire Protection - The City of Evansville has recently submitted an application with the Public Service Commission to increase water rates. If approved, this increase will impact public fire protection, as well as user charges. Public Fire Protection specifically refers to the cost of maintaining the fire hydrant system. Communities throughout Wisconsin collect public fire protection charges either through the property tax levy or as a special charge on the water bill. Because Evansville has elected to collect this charge through the property tax levy, and because it has the potential for a \$59,500 annual increase, it is recommended to budget for a portion of this increase at this time. An increase of \$30,000 is recommended. Depending upon the timing and ultimate rate decision, a budget amendment may become necessary (using fund balance) during 2007. In addition, the Council should anticipate a second increase in this area for 2008.

Police Department Staffing Increase – The Police Chief has recommended the inclusion of one additional full-time police officer and the elimination of part-time police officers. The salary and benefit cost for adding a full-time police officer is \$56,807 per year. The proposed budget is based upon a potential hiring date of July 1, 2007. The net increase in police salaries is \$12,290 (after reducing the part-time officer budget by \$16,114). The delayed implementation date allows time for a newly hired City Administrator and Police Chief to complete a thorough evaluation of the proposed staffing change and for the Public Safety Committee to make a recommendation. If the staffing change were approved, the City would need to anticipate an additional increase in 2008 of approximately \$15,000.

Department of Public Works Staffing Increase – The Director of Public Works and the Public Works Committee have recommended the inclusion of one additional full time employee. This General Laborer is needed at this time to address additional workload. The salary and benefit cost for this position is \$58,073 per year. The proposed budget is based upon a potential hiring date of May 1, 2007. The 2007 budget increase for this position is \$24,197. If the staffing change is approved, the City would need to anticipate an additional increase in 2008 of nearly \$34,000.

Parks Department – The Director of Public Works and the Parks and Recreation Board have recommended the inclusion of one additional seasonal employee. This position is needed at this time to address additional workload associated with the Westside Park. The total cost of this position, including salary and benefits is \$3,445.

Community Planning – Community planning services have been increased to \$41,000 (from \$30,000) to reflect actual experience based upon the actual amount expended in 2005 and the anticipated expenditure for 2006.

EMS Township Service Agreement – Revenues from the township service agreement have been increased by 50% to reflect an increase in the per capita payment to \$15. The City tax levy currently provides a City resident payment of over \$20 per capita.

EMS Expenses – EMS fuel and ambulance maintenance are increasing to reflect the increase to two ambulances. EMS insurance is increasing due to allocation adjustments and increasing premiums.

TIF #5 – TIF #5 includes \$50,000 in development assistance for uses to be identified in 2007.

Capital Projects Fund - Items from the 5 year Capital Plan for the year 2007 have been included. The fund includes a fund balance applied in the amount of \$566,197. It is recommended that additional capital fund balance be utilized to reduce the amount of the note issue when borrowing in 2007.

TIF #5 Capital Projects Fund – This fund includes funding for sanitary sewer construction, road construction, Allen Creek bridge, and street light conduit replacement. This budget assumes a 2007 borrowing to fund these projects. Principal and interest payments would not begin until 2008, and thus are not reflected here or in the debt service fund at this time. The amount anticipated to be borrowed has been reduced by \$398,800 from the preliminary budget to reflect the receipt of a Wisconsin Department of Transportation enhancement grant in the amount of \$398,800.

TIF #6 Fund – This fund includes funding for sanitary sewer construction, water utility improvements, storm sewer/pond construction, road construction, electrical utility improvements, a traffic impact analysis study and a trade market analysis summary. Debt issuance expenses have also been included. This budget assumes a 2007 borrowing to fund these projects. Principal and interest payments would not begin until 2008, and thus are not reflected here or in the debt service fund at this time. The amount anticipated to be borrowed has been reduced by \$411,544 in anticipated special assessments and \$36,890 in interest earnings.

Wastewater Treatment Plant – Lift station operations and maintenance and repairs have been increased to reflect actual experience based upon the actual amount expended in 2005 and the anticipated expenditure for 2006.

Water Utility Budget – The City of Evansville has recently submitted an application with the Public Service Commission to increase water rates. The rate adjustment is necessary due to increases in operating expenses and costs of various capital projects undertaken in 2006. This review and approval process can be lengthy. It will likely be a minimum of three months before the City completes the public hearing process and receives a decision from the Public Service Commission. It is prudent not to include an increase in revenue in the Water Utility Budget at this time.

Budget Schedule

The Council will hold a public hearing at their November 14, 2006 Council meeting, will make any appropriate modifications, and will adopt the Ordinance, which adopts the 2007 budget and sets the tax levy.

Looking Ahead

The City of Evansville has been fortunate in recent years to be experiencing rapid growth in assessed value primarily due to net new construction. The Council should be aware that the number of building permits issued in 2006 is down considerably. This will result in lower levels of growth in net new construction. A lower level of construction will mean that the City will be facing a lower property tax levy limit and potentially a lower expenditure restraint program guideline when preparing the 2008 City Budget.

I would encourage the City to undertake an analysis of the tax levy impact of debt when issuing debt in 2007. The goal would be to maintain a relatively constant level of tax support to the debt service fund in the upcoming years. If the property tax levy limit is reduced, you will likely need to shift a greater portion of the levy to the General Fund area (from Capital and possibly Debt Service).